

RURAL TRANSPORTATION INFRASTRUCTURE PROGRAM

(EC-0196)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Ecuador	
Executing agency:	Ministry of Public Works and Communications (MOP)	
Amount and source:	IDB (OC/IFF):	US\$9 million
	Local:	US\$ 1.2 million
	Total:	US\$10.2 million
Terms and conditions:	Amortization period:	25 years
	Grace period:	3 years
	Disbursement period:	2.5 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollars, under the Single Currency Facility
Objectives:	<p>The objective of the program is to lay the foundations for a sustainable rural road management model, replicable on a larger scale, that will ensure continuous accessibility for poor rural communities to social services, markets, and other income-generating activities, thereby contributing to improving their living conditions. To design and measure the sustainability of the proposed model, 415 km of rural roads and 100 km of nonmotorized paths will be rehabilitated, the scope necessary to ascertain whether the institutional, financial, and technical impact targeted can be obtained.</p>	
Innovative features of the operation:	<p>The innovation of the program is the development and introduction of a sustainable rural road management system, replacing the existing system. Management is currently characterized by uncoordinated intervention by various agencies in response to emerging needs, unsupported by clear assignment of responsibilities or proper planning and resource allocation.</p>	

The program will introduce a road management model that differs in quality from the current model. Its innovative features stem from the institutional relationships to be established; identification of the responsible jurisdiction; reallocation and systematic use of available financial resources; extensive participation by the beneficiary community; and introduction of technical procedures (particularly routine maintenance by microenterprises composed of local residents), duly supported by institutional reforms and the development of explicit assistance and training policy for the rural road and transportation system. These features, in isolation, may not be innovative, but a comprehensive, consensus-based approach to road management is. Therein lies the program's innovation for the sector and the country.

Several hypotheses will need to be tested and their sustainability ascertained. Procedures will also have to be developed through limited rehabilitation of roads whose representativeness is ensured by the selection criteria applied (paragraphs 3.7 and 3.20). The program, developed on the basis of these projects, will make it possible to reach consensus and obtain commitments on the part of the MOP, provincial councils, municipalities, and target communities, and establish innovative technical and community participation procedures for the transportation sector. The flexible nature of an innovation loan will enable the stakeholders to participate in the management system's design, review and consolidate procedures and methods on the basis of lessons learned, and ensure their sustainability prior to structuring a program of wider scope.

The program has a monitoring and evaluation method (paragraphs 4.12 *et seq.*) in which the stakeholders will participate. Adjustments can thus be made during execution and it can be evaluated whether the desired results have been obtained or the methods used have not been adequate. This methodology is based on systematic reviews of institutional and investment activities; independent monitoring of performance; evaluation of short-term socioeconomic impact; analysis of technical and environmental results; and evaluation of institutional, legal, and financial factors considered for rehabilitation and maintenance microenterprises.

Description:

To achieve the proposed objectives, the program consists of four components: (i) institutional strengthening, which focuses on the development, monitoring, evaluation, and consolidation of the innovative aspects; (ii) physical works for rehabilitation of 415 km of rural roads and 100 km of nonmotorized paths; (iii) routine maintenance of the rehabilitated roads by microenterprises composed of local residents, to be created, trained, cofinanced, and monitored by

**The Bank's
country and
sector strategy:**

the program; and (iv) technical preinvestment studies and works supervision.

The purpose of the country strategy is to halt economic decline, create conditions for sustained development, and promote the ongoing fight against poverty. The proposed program is an essential part of this strategy, as it seeks to develop community organization mechanisms and strengthen local rural road management capacity, which will ensure continuous accessibility and connectivity for poor rural areas, thereby creating opportunities for economic growth, diversification of production, and greater use of social services.

The proposed program is part of the transportation sector strategy to increase Bank presence in projects with social content, such as rural and urban transportation and road safety, and to improve overall economic efficiency through the provision of adequate transportation infrastructure.

In addition, the Bank's recommendations for lending for the construction, rehabilitation, and maintenance of rural roads (paragraph 2.13) also support the program's basic premise that year-round, sustainable accessibility is to be achieved through rehabilitation (under strict technical and cost limitations) associated with routine road maintenance at a cost to be absorbed gradually by subnational governments.

**Environmental
and social
review:**

The works are simple and do not include paving or any alterations in alignment. The adverse environmental impact expected is direct and small-scale, associated mainly with the works, and will be avoided or mitigated through well-known, easily implemented measures. The proposed strategy provides for environmental protection criteria at all phases of the rehabilitation projects and the road maintenance activities. The program will support training of an executing unit, by hiring one engineer with experience in environmental issues in road projects and will develop specific rules for rural roads. Environmental protection topics will also be included in the training courses for subnational governments and maintenance microenterprises (paragraph 3.27).

Benefits:

The main benefit of the program will be the development of a road management and maintenance system that is institutionally, technically, and financially sustainable, and replicable on a larger scale. Sustainability will generate other benefits stemming from the accessibility to be afforded to the communities, improving their living conditions, enhancing opportunities to diversify their productive activities and market their products and find employment, and, above all, increasing their access to social and public services. The short-term benefits will be reflected in a reduction in transportation costs

and travel times, and an improvement in transportation services.

Risks:

The main risk lies in the weakness of subnational governments to assume responsibility for administrative, technical, and financial management of rural roads. Resources will be allocated under the program to identify the capacity of the subnational governments involved, analyze options for overcoming current limitations, establish timetables for gradual transfer of responsibilities; and provide the subnational governments with advisory services and training. To this end, the program will have institutional capacity in the Rural Roads Unit (UCV) (paragraph 4.1), which will ensure the continuity of such strengthening.

The sustainability of individual projects will be achieved through community participation from road identification to operation, acceptance by subnational governments of the road management system, obtaining the technical results and impact promised by the program, and scaling of contributions according to the capacity of the subnational governments and beneficiaries. However, there may be roads which, although these results have been achieved, do not receive subsequent institutional and financial support. In that case, the program will withdraw from the municipality and province in question. A large number of beneficiaries must support this system, although some may decline to participate in it. If a clear majority do not support such acceptance, the system will not have produced the anticipated results and will not be replicable on a larger scale.

The environmental and technical risks will be minimized through the use of designs and execution procedures that ensure environmental protection and maintenance of the rehabilitated roads, training of the executing agency staff and supervision works maintenance of the works (paragraphs 3.27 and 4.15).

The local counterpart financing risk is substantially mitigated by the confirmation that the necessary resources are available and the fact that the MOP has already used its own identifiable resources to carry out various preparatory activities (paragraphs 4.1 and 4.9).

**Special
contractual
conditions:**

Conditions precedent to the first disbursement:

1. Evidence must be submitted that the Operating Regulations of the UCV have been approved by ministerial decree (paragraph 4.1).

2. The program's operations manual must have entered into force on the terms agreed upon with the Bank, through the respective resolution adopted by the Executive Director (paragraph 4.8).
3. Evidence must be submitted on the terms agreed upon with the Bank, that the framework agreement has been signed by the UCV and the subnational governments involved in the first two road projects to be executed (paragraph 4.7)

Other special contractual conditions:

4. The executing agency, through the UCV, will submit to the Bank for nonobjection:
 - a. the proposed annual execution plan and a budget for each component, for the following year, by 31 October of each year during program execution (paragraph 4.11);
 - b. quarterly progress reports, within 30 days after the end of the respective quarter (paragraph 4.13);
 - c. annual maintenance reports on the roads rehabilitated under the program for three years after program completion, which reports will include the annual maintenance budget, resources allocated, maintenance microenterprise performance, and the technical, institutional, and financial results obtained (paragraph 4.18);
 - d. the program's financial statements, duly audited by a firm of independent public accountants acceptable to the Bank, at the close of each fiscal year, during the program execution period, including the portion corresponding to 2000, which report will be submitted to the Bank within four months after the end of the respective fiscal year (paragraph 4.31).
5. The UCV's information system, which will support program monitoring activities, will be in operation within six months after signature of the loan contract (paragraph 4.14).
6. The executing agency and the Bank will meet every six months to evaluate progress made and results obtained in program execution and to agree on the plan of activities for the following year. If progress is deemed unsatisfactory, the executing agency will prepare a plan of action containing

corrective measures satisfactory to the Bank within two months after receipt of notification by the Bank of the deficiencies noted (paragraph 4.16).

7. The revolving fund for program disbursements will be 10% of the amount of the Bank loan (paragraph 4.29).
8. The Bank will provide retroactively financing for up to US\$1.3 million in expenses incurred after 19 May 2000 for civil works, consulting services, and administration under the program. It will also recognize up to US\$200,000 in expenses incurred for civil works, consulting services, and program administration as part of the local counterpart funding (paragraph 4.32).

Poverty-targeting and social sector classification:

The program promotes social equity, in accordance with the key objectives for Bank activity (document AB-1704). It also qualifies as a poverty-targeted investment (PTI), since it is geographically targeted to provinces and municipalities with high poverty rates (see map). Works in provinces with greater institutional capacity do not affect this classification. In applying the poverty-targeting classification, it is recommended that the *pari passu* be 88%-12% (paragraph 3.30). The country will thus be using the 8% in additional financing.

Exceptions to Bank policy:

The program will finance up to 81% of the cost of routine maintenance of the rehabilitated roads by hiring microenterprises, allocating less than 3% of the loan proceeds to maintenance, which amount does not include the contribution by the subnational governments. This financing would be an exception to Operations Policy OP-707, "Maintenance and Conservation of Physical Works and Equipment" (paragraph 3.17 and 3.31).

Procurement:

International competitive bidding will be mandatory for the awarding of contracts for works valued at over US\$3 million and for the procurement of goods and related services valued at over US\$250,000. An international call for proposals will be mandatory for the hiring of consulting services valued at over US\$200,000 (paragraph 4.22).

Contracts for rehabilitation works valued at under US\$400,000 will be awarded through the procedure of issuing a written call for proposals from no less than six qualified contractors (paragraph 4.23).

Exceptions to procurement procedures: (i) works: direct contracting of executing units, rural road committees, or microenterprises will be permitted for nonmotorized path rehabilitation works or routine rural

road maintenance valued at US\$50,000 or less (paragraphs 4.24 and 3.15); and (ii) consulting services: direct contracting will be permitted for individual consultants whose contracts are valued at US\$10,000 or less (paragraph 4.26).